

Subject: Compliance with International Standards on Auditing and Quality Control

Status: For Publication

Report to: Audit and Accounts Committee

Date: 30th September 2009

Report of: The Head of Financial Service

Portfolio

Holder: Finance and Resources

Key Decision: Yes / No

Forward Plan General Exception Special Urgency

1. PURPOSE OF REPORT

1.1 The purpose of the report is to seek Member approval on the response to The Audit Commission's request regarding compliance with International Auditing Standards

2. CORPORATE PRIORITIES

2.1 The matters discussed in this report impact directly on the following corporate priorities and associated corporate objective.

- Well Managed Council

3. RISK ASSESSMENT IMPLICATIONS

3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- Council procedures in the management and identification re the risk of fraud

4. BACKGROUND AND OPTIONS

4.1 The Audit Commission is obliged to comply with International Auditing Standards and Quality Control (ISAs). To support its work in relation to ISA 240, ISA 250 and 501 the Commission has asked the Audit and Accounts Committee to provide it with some information.

- 4.2 With regard to ISA 240, 'The Auditor's Responsibilities in Relation to Fraud in an Audit of Financial Statements', the Commission is required to obtain reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- 4.3 The Audit Commission is therefore seeking an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control.
- 4.4 The Audit Commission has therefore asked the Audit and Accounts Committee to confirm the following:
- How the Committee oversees management processes to identify and respond to the risk of fraud.
 - Whether the Committee has knowledge of any actual, suspected or alleged frauds affecting the council.
- 4.5 Under ISA 250, 'Consideration of Laws and Regulations in an Audit of Financial Statements', the Audit Commission must assess the risk of misstatement of the financial statements arising from non compliance with laws and regulations, including those that determine the reported amounts and disclosures in the financial statements. The Audit Commission is therefore seeking to understand how the Audit Committee gains assurance that all relevant laws and regulations have been complied with.
- 4.6 Under ISA 501 the Audit Commission is required to obtain confirmation from management around the potential for litigation and claims that would affect the financial statements.
- 4.7 A response has been prepared for consideration by the Committee and is attached at Appendix A.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

- 5.1 Financial considerations are included in the main body of the report.

6. MONITORING OFFICER

- 6.1 Legal and governance matters are dealt with in the main body of the report.

7. HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT (ON BEHALF OF THE HEAD OF PAID SERVICE)

- 7.1 There are no direct Human Resources implications.

8. CONCLUSIONS

8.1 That Appendix A is approved by the Committee.

9. RECOMMENDATION(S)

9.1 The response to The Audit Commission (Appendix A) is considered and approved by Members.

9.2 The Chair of the Audit and Accounts Committee is authorised to sign the response on behalf of the Committee.

10. CONSULTATION CARRIED OUT

10.1 Director of Business

10.2 Internal Audit

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required ~~Yes~~ / No

Is an Equality Impact Assessment attached ~~Yes~~ / No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required ~~Yes~~ / No

Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

Contact Officer	
Name	Philip Seddon
Position	Head of Financial Services
Service / Team	Financial Services
Telephone	01706 252465
Email address	philipseddon@rossendalebc.gov.uk

Background Papers	
Document	Place of Inspection
Audit Commission letters	Finance Department, Futures Park, Room 222

Appendix A

Dear Mr Portman,

Response of the Audit and Accounts Committee and Head of Financial Services to the Audit Commission's request for information to support its compliance with International Standards on Auditing and Quality Control

The Audit and Accounts Committee considered your request for information to enable you to comply with International Standards on Auditing and Quality Control 240, 250 and 501 at its meeting on 30th September 2009 and, with the Head of Financial Services, has approved the following response.

1. Your requirements

- 1.1 The Audit Commission is obliged to comply with International Auditing Standards. With regard to Standard 240 ('The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements') it is required to gain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. The Audit Commission has therefore asked the Audit and Accounts Committee to confirm the following:
- How the Audit and Accounts Committee oversees management processes to identify and respond to such risks, and.
 - Whether the Committee has knowledge of any actual, suspected or alleged frauds affecting the Council
- 1.2 The Audit Commission is also seeking to gain an understanding, under Standard 250 ('Consideration of Laws and Regulations in an Audit of Financial Statements') of the way that those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 1.3 The Audit Commission is also seeking confirmation, under Standard 501 ('Audit Evidence'), from management around the potential for litigation and claims that would affect the financial statements.

2. Role of the Audit and Accounts Committee

- 2.1 Under its terms of reference the Audit and Accounts Committee considers and advises the Council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the council's Audit Service, which provides assurance to the Council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the Council in its management of the risk of fraud by providing an investigations service.

2.2 Since fraud represents a lapse in financial control, the Audit and Accounts Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud. However the Standards Committee is also charged with governance in this area (in particular maintaining an overview of the Council's Constitution and monitoring Council policies with regard to 'Whistle blowing' and the Anti-Fraud and Anti-Corruption strategy). The work of the Standards Committee is therefore also considered in this response.

2.3 Rossendale Borough Council, due to its size, takes a reasonable and proportional approach to the assessment of risk and to the assurance required over the controls implemented to manage risk. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, to be able to oversee and assess all management processes. Nor can total and absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

3. The Audit and Accounts Committee's oversight of internal audit work

3.1 The Audit and Accounts Committee approves the annual internal audit plan, which is based on an assessment of the Council's full range of operational and financial controls. Where controls to manage the risk of non-compliance with laws and regulations are assessed as significant, these are included in the annual audit plan.

3.2 The annual audit plan refers to the Audit Service's work to support management in managing the risk of fraud and, in particular, sets aside audit resources by way of a contingency for, inter alia, the investigation of suspected or alleged instances of fraud. The audit plan is also built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations.

3.3 The Audit and Accounts Committee will receive reports, as required, from the Internal Audit Service including reports on breaches of internal control and fraud risks. The Finance Manager also briefs the Committee on financial matters, and other officers may attend to brief the Committee on control issues as necessary to respond to audit reports and inform the Committee on progress where remedial action has been agreed.

3.4 The Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the council's key financial systems, regularly testing both the corporate controls and controls operated within individual services.

3.5 The Audit Commission will be aware that the council actively participates in its National Fraud Initiative which serves as a regular extension of the work done by the audit service throughout the year. Checks are carried out promptly on the reports raised by this.

- 3.6 The Internal Audit Service and in particular the Principal Auditor serves as one of the authority's key contacts for 'whistle-blowing' matters under the Council's policy. Investigations will be undertaken promptly and pursued vigorously and, where appropriate, liaised with the police.
- 3.7 The Audit and Accounts Committee has previously been provided with the annual report of the Head of Internal Audit. This report has also been shared with the Audit Commission.

4. Oversight of management processes

- 4.1 The Audit and Accounts Committee takes its role in reviewing the effectiveness of internal control, including financial control arrangements, seriously. It values its independence, its direct reporting line and ability to make recommendations to Cabinet, Council and other organisations where appropriate.
- 4.2 A key element of the assurance available to the Committee and to the council is the suite of assurance statements made by each of the Heads of Service annually that support the annual governance statement and require each Head of Service to take personal responsibility for the operation of an adequate and effective control system, which includes compliance with applicable laws and regulations.
- 4.3 The Committee will receive information about instances of financial impropriety and fraud within the Head of Internal Audit's annual report. It also concerns itself with control arrangements within the council's partnerships, where policies and arrangements to counter the risk of fraud are covered by formal partnership agreements and as part of the risk assessment process.
- 4.4 The Council has an approved Anti-Fraud and Anti-Corruption Strategy and a whistle-blowing policy (monitored by The Standards Committee). These documents have been periodically communicated to the Council's staff, by inter alia: staff inductions, personal development reviews, daily messages and team briefings.

5. Actual, suspected or alleged frauds affecting the council

- 5.1 The Audit Committee is unaware of any actual, suspected or alleged frauds affecting the council during 2008/09.

6. Potential for litigation and claims that would affect the financial statements

- 6.1 The management are not aware of any potential litigation or claims, other than those already disclosed to the Audit Commission that would affect the financial statements.

6.2 In addition a more detailed Letter of Representation will be signed by the Head of Financial Services following the 30th September 2009 Audit and Accounts Committee, a draft of which is included in the Audit Commission's Annual Governance Report for consideration by the Committee.

Yours sincerely,

Chair of the Audit & Accounts Committee

Head of Financial Services (and S.151 Officer)